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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Major economic indicators show continued economic strength. The GDP grew at a healthy rate, the composite index of leading indicators rose, orders and shipments of manufactured goods increased, and employment reached its highest level in a year.

The U.S. Department of Commerce reported that real GDP grew by 3.4 percent ($45.1 billion) at an annualized rate in the third quarter. The inflation rate (as measured by the fixed-weighted price index for gross domestic purchases) remained subdued, increasing by 3.2 percent in the third quarter, the same increase as in the second. Commerce revised upward estimates of the real GDP growth rate for the second quarter to a seasonally adjusted annual rate of 4.1 percent ($53.0 billion). Real GDP increased 3.3 percent ($43.1 billion) at an annual rate in the first quarter.

Third-quarter GDP advance estimates show (1) increases in personal consumption and in Federal Government expenditures over the second quarter and (2) declines in nonresidential fixed investment. Real consumption expenditures increased $26.1 billion in the third quarter, compared with an increase of $11.5 billion in the second. A large part of the increase in personal spending was in durable consumer goods purchases. Durable goods purchases increased by $10.0 billion compared with an increase of $0.5 billion in the second quarter. Nondurable goods purchases increased by $5.8 billion compared with an increase of $6.8 billion. Services expenditures increased by $10.2 billion, compared with an increase of $5.1 billion. Real Federal Government expenditures increased by $7.9 billion in the third quarter in contrast to a decrease of $7.0 billion in the second.

Real nonresidential fixed investment increased by $11.3 billion in the third quarter compared with an increase of $14.3 billion in the second quarter. Most of the increase was in producers' durable equipment purchases, increasing by $13.4 billion, compared with an increase of $7.5 billion in the second quarter.

Exports increased to $659.2 billion in the third quarter from $643.9 in the second, and imports increased to $777.5 billion from $755.6 billion. As a result, the trade deficit on goods and services (in 1987 dollars) increased by $8.6 billion to $118.3 billion from $111.7 billion in the second quarter.

The index of leading indicators rose by 0.6 percent in August 1994, according to the U.S. Department of Commerce. The index was unchanged in July and increased by 0.2 percent in June. Nine of eleven indicators made positive contributions to the index: manufacturers' new orders for consumer goods and materials in 1987 dollars, vendor performance (slower deliveries diffusion index), average weekly initial claims for State unemployment insurance, stock prices, change in sensitive materials prices, index of consumer expectations, average workweek, contracts and orders for plant and equipment in 1987 dollars, and building permits. Two of eleven indicators made negative contributions: (1) money supply in 1987 dollars and (2) change in manufacturers' unfilled orders of durable goods in 1987 dollars.

Moreover, the U.S. Department of Commerce reported that new orders for manufactured goods increased in August by $12.2 billion or 4.4 percent to $286.5 billion, the largest increase since December 1992. This follows a 2.0-percent decrease in July, and it is the 11th increase in the last 13 months. Year-to-date new orders for 1994 are 9.3 percent above the same period a year ago.

Particularly noteworthy was the increase in new orders for manufactured durable goods. Orders for durables increased in August by $8.9 billion or 6.1 percent to $154.2 billion, following a 3.9-percent decrease last month. The increase is the 11th in the last 13 months and the largest since December 1992. Transportation equipment had the largest increase, up by $6.2 billion or by 19.3 percent to $38.5 billion, primarily due to increased demand for motor vehicles and parts and aircraft and aircraft parts. Industrial machinery and equipment was up by $1.3 billion or by 4.6 percent, to $29.8 billion, following a 1.2-percent decline in July. Primary metals increased by $0.5 billion, or by 4.0 percent to $13.5 billion, following a 0.6-percent decrease in July 1994.

New orders for nondurable goods also showed strong growth, increasing by $3.2 billion (2.5 percent) from July to $132.3 billion, the 10th consecutive increase and the largest since August 1990. All major industries increased except leather and leather products.

Shipments of manufactured goods in August increased by $12.4 billion or by 4.5 percent to $287.9 billion, following a 1.1-percent decrease in July. This is the largest increase since May 1979 and is the 10th increase in the last 13 months. Year-to-date shipments for 1994 are 8.0 percent above those of the same period a year ago. The sharp rise in consumer demand for manufactures induced rapid growth in shipments of durable and nondurable goods. Shipments of durables increased in August by $9.1 billion or 6.2 percent to $155.6 billion, following a 2.4-percent decline in July. This is the fifth increase this year and the largest since August 1989. Shipments of all major durable industries increased, with transportation equipment having the largest increase, up $5.9 billion or 17.0 percent to $40.6 billion. This is the largest increase since the 22.0-percent increase in February 1990. Shipments of industrial machinery and equipment were up by $1.2 billion or by 4.3 percent to $28.4 billion. This follows a July increase of 0.5 percent and is the fourth consecutive monthly increase. Shipments of primary metals were up $0.5 billion or 3.9 percent to $13.3 billion, the seventh consecutive increase. Shipments of nondurable goods increased by $3.2 billion or 2.5 percent to $132.2 billion, the 10th consecutive monthly increase and the largest since August 1990.

The rise in the demand and shipments of manufactures resulted in widespread employment gains in September. Total employment, as measured by the survey of households, increased sharply for the second consecutive month. The September increase was the highest since January 1994 (see following section on employment).

U.S. Economic Performance Relative to Other Group of Seven (G-7) Members

Economic Growth

Real GDP—the output of goods and services produced in the United States measured in 1987 prices—grew at a 3.4-percent seasonally adjusted annual rate in the third quarter of 1994, following a revised annual rate of 4.1 percent in the second quarter.

The annualized rate of real economic growth in the second quarter of 1994 was 6.4 percent in Canada, 4.1 percent in France, 4.0 percent in Germany, 5.7 percent in Italy, -1.6 percent in Japan, and 4.4 percent in the United Kingdom.

Industrial Production

Industrial production was unchanged in September, following an increase of 0.7 percent in August. Disruptions associated with a strike in motor car production and with temporary shortages of parts contributed to the decline in the output of motor vehicles and parts. Output excluding motor vehicles edged up 0.1 percent led by a sizable increase in the output of business equipment. The index of total industrial production was 6.7 percent higher in September than it was a year earlier. Output rose at a 6.0-percent annual rate in the third quarter up from a 5.4-percent annual rate in the second quarter. Industrial capacity utilization dropped in September to 84.6 percent, down from 84.8 in August. Industrial capacity utilization rose by 2.6 percent over a year earlier.

Other G-7 member countries reported the following annual growth rates of industrial production. For the year ending August 1994, Germany reported an increase of 1.2 percent, Japan reported an increase of 3.5 percent, and the United Kingdom reported an increase of 4.6 percent. For the year ending June 1994, Canada reported an increase of 5.3 percent, France reported an increase of 3.1 percent, and Italy reported an increase of 4.5 percent.

Prices

The seasonally adjusted Consumer Price Index (CPI) increased by 0.2 percent in September following an increase of 0.3 percent in August. The CPI advanced by 3.0 percent during the 12 months ending September 1994. During the 1-year period ending September 1994, prices increased by 0.2 percent in Canada, 1.6 percent in France, 2.9 percent in Germany, 3.9 percent in Italy, nil in Japan, and 2.2 percent in the United Kingdom.

Employment

The unemployment rate declined to 5.9 percent in September from 6.1 percent in August 1994, according to the U.S. Department of Labor. Nonfarm payroll employment, as measured by the employer survey, rose by 239,000 in September 1994, to 114 million. Since January, the unemployment rate has fallen by 0.8 percent, while the number of unemployed persons has dropped by about 1 million.

Among the major labor force groups, adult men accounted for much of the overall decline in

unemployment; their unemployment rate was 5.1 percent in September, down by 0.3 percent during the month. The rates for adult women (5.3 percent) and teenagers (17.0 percent) were both little changed from August. The unemployment rates for whites (5.1 percent) and blacks (10.7 percent) were down marginally in September, while the rate for Hispanics (10.2 percent) was unchanged.

Much of the employment growth in September was concentrated in services, construction, trade, transportation, and government. Manufacturing employment remained unchanged.

Employment in the services industry rose by 101,000 during the month, rising somewhat below the average monthly growth over the past year. Much of the September advance occurred in business (54,000) and social services (24,000). Construction employment was up by 19,000 in September (seasonally adjusted) after holding steady in August. Employment in retail trade increased modestly for the second straight month, with a 40,000 employee gain in September; this followed robust growth in June and July. Automobile dealers and furniture stores continued to add jobs. Wholesale trade employment increased by 10,000 over the month, continuing a pattern of moderate gains.

Widespread job gains in the transportation industry totaled 19,000 in September. The impact of higher interest rates continued to be felt in the finance industry, with further job declines in mortgage banking. Employment in depository institutions also continued to decline. Employment in real estate was flat, following a large August increase.

Government employment rose by 65,000 in September. This increase partly reflected strength in State education, as enrollment increases in higher education spurred September hiring. In the noneducation component of local government, job growth was affected in part by the hiring of temporary election workers in several States. Federal Government employment was about unchanged.

Manufacturing employment remained unchanged in September, following an increase of 39,000 in August. The number of factory jobs has risen by 147,000 since reaching a low point a year ago. Within durable goods, further employment gains occurred in the auto industry, electronic equipment, and primary metals, which together added 14,000 jobs. Within nondurable goods, small but widespread job declines totaled 13,000. Average hourly earnings of private production or nonsupervisory workers increased by 0.3 percent in September to $11.16, seasonally adjusted. Weekly earnings increased by 0.6 percent to $386.14. Over the year, hourly earnings increased by 2.6 percent and weekly earnings by 3.2 percent.

By comparison with other G-7 countries, the unemployment rate in September was 9.1 percent in the United Kingdom, 10.1 percent in Canada, 12.6 percent in France, 8.3 percent in Germany, 11.6 percent in Italy, and 3.0 percent in Japan.

Forecasts

Forecasters expect real growth in the United States to average around 2.9 percent in the fourth quarter of 1994 and to decline slightly in the first half of 1995. In the first half of 1995, GDP growth is expected to average 2.7 percent. Factors that may restrain the recovery in 1994 include the impact of rising interest rates on new investment, output, and incomes, and the contractionary impact of the decline in government spending. Table 1 shows macroeconomic projections for the U.S. economy for the period October 1994 to June 1995, by six major forecasters, and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter.

The average of the forecasts points to an unemployment rate of 6.0 percent in the remainder of 1994, then a decline to 5.9 percent in the first two quarters of 1995. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.8 percent in the fourth quarter of 1994, then rise in the first quarter of 1995 by 3.1 percent and decline afterwards. A slow rise in labor costs, wages, and compensation are expected to hold down inflation rates.

Table 1
Projected changes of selected U.S. economic indicators, by quarters, Oct. 94-June 95

(Percent)

Period	Conference Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc. (D.R.I.)	Wharton WEFA Group	Mean of 6 forecasts
	GDP current dollars						
1994:							
Oct.-Dec	7.5	5.4	4.2	6.5	4.9	5.9	5.7
1995:							
Jan.-Mar.	7.5	5.7	5.0	6.0	4.9	6.4	5.9
Apr.-June	6.9	5.5	5.2	5.5	3.8	5.5	5.4
	GDP constant (1987) dollars						
1994:							
Oct.-Dec.	4.1	2.1	1.9	3.5	2.8	2.9	2.9
1995:							
Jan.-Mar.	4.2	2.5	2.4	2.9	2.0	2.7	2.8
April-June	4.4	2.3	2.9	2.6	1.4	2.7	2.7
	GDP deflator index						
1994:							
Oct.-Dec.	3.2	3.2	2.3	2.9	2.0	3.0	2.8
1995:							
Jan.-Mar.	3.1	3.2	2.6	3.1	2.8	3.6	3.1
April-June	2.4	3.1	2.2	2.9	2.4	2.7	2.6
	Unemployment, average rate						
1994:							
Oct.-Dec	6.0	6.0	6.2	5.9	6.0	6.1	6.0
1995:							
Jan.-Mar.	5.9	5.9	6.1	5.9	5.9	6.0	5.9
April-June	5.8	5.9	6.2	5.8	5.9	6.0	5.9

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: October 1994.

Source: Compiled from data provided by the Conference Board. Used with permission.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of goods and services of $59.8 billion and imports of $69.5 billion in August 1994 resulted in a goods and services trade deficit of $9.7 billion, $1.4 billion less than the July deficit of $11.2 billion. The August 1994 deficit was $2.9 billion more than the deficit registered in August 1993 ($6.8 billion) and $1.6 billion higher than the average monthly deficit registered during the previous 12 months ($8.1 billion).

The August trade deficit in goods was $14.3 billion, approximately $1.6 billion less than the July deficit of $16.0 billion. The August services surplus was $4.6 billion, approximately $0.2 billion less than the July surplus of $4.8 billion.

Seasonally adjusted U.S. trade in goods and services in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2. Nominal export changes and trade balances for specific major commodity sectors are shown in table 3. U.S. exports and imports of goods with major trading partners on a monthly and year-to-date basis are shown in table 4 and U.S. trade in services by major category is shown in table 5.

Table 2
U.S. trade in goods and services, seasonally adjusted, July-August 1994
(Billion dollars)

Item	Exports		Imports		Trade balance	
	Aug. 94	July 94	Aug. 94	July 94	Aug. 94	July 94
Trade in goods (BOP basis)						
Current dollars—						
Including oil	43.9	40.1	58.2	56.1	-14.3	-16.0
Excluding oil	44.2	40.4	52.7	50.7	-8.4	-10.3
Trade in services						
Current dollars	15.9	16.2	11.3	11.4	4.6	4.8
Trade in goods and services						
Current dollars	59.8	56.3	69.5	67.5	-9.7	-11.2
Trade in goods (Census basis)						
1987 dollars	43.4	40.1	55.6	53.9	-12.2	-13.8
Advanced-technology products (not seasonally adjusted)	10.0	9.1	8.4	7.8	1.6	1.3

Note.—Data on goods trade are presented on a Balance-of-Payments (BOP) basis that reflects adjustments for timing, coverage, and valuation of data compiled by the Census Bureau. The major adjustments on BOP basis exclude military trade but include nonmonetary gold transactions, and estimates of inland freight in Canada and Mexico, not included in the Census Bureau data.

Source: *U.S. Department of Commerce News (FT 900)*, Oct. 1994.

Table 3
Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan. 1993-Aug. 1994

Sector	1994 Exports Jan.-Aug. 1994	1994 Exports Aug. 1994	Change Jan.-Aug. 1994 over Jan.-Aug. 1993	Aug. 1994 over July 1994	Share of total, Jan.-Aug. 1994	Trade balances, Jan.-Aug. 1994
	Billion dollars		Percent			Billion dollars
ADP equipment & office machinery	19.4	2.4	11.5	0	5.9	-12.8
Airplane	13.1	1.7	-8.4	112.5	4.0	10.6
Airplane parts	6.4	.8	3.2	0	1.9	4.6
Electrical machinery	28.8	3.9	20.0	8.3	8.7	-7.4
General industrial machinery	14.1	1.9	8.5	5.6	4.3	0
Iron & steel mill products	2.3	.3	0	0	.7	-5.9
Inorganic chemicals	2.6	.4	-3.7	0	.8	0
Organic chemicals	8.2	1.1	10.8	0	2.5	1.0
Power-generating machinery	13.4	1.7	5.5	13.3	4.1	0.7
Scientific instruments	10.8	1.3	6.9	0	3.3	4.5
Specialized industrial machinery	12.8	1.8	10.3	12.5	3.9	1.7
Telecommunications	10.0	1.3	20.5	0	3.0	-9.8
Textile yarns, fabrics and articles	4.2	.6	7.7	20.0	1.3	-1.9
Vehicle parts	13.3	1.9	4.7	63.6	4.0	0.3
Other manufactured goods[1]	18.4	2.4	6.4	4.3	5.6	-8.0
Manufactured exports not included above	83.9	10.6	12.3	4.9	25.4	-70.6
Total manufactures	261.7	34.0	9.7	10.0	79.2	-93.0
Agriculture	27.6	3.4	1.8	9.7	8.4	10.7
Other exports not incl.above	41.1	6.0	6.5	17.6	12.4	-11.1
Total exports of goods	330.4	43.4	8.6	11.0	100.0	-93.4

[1] This is an official U.S. Department of Commerce commodity grouping.

Note.—Because of rounding, figures may not add to the totals shown. Data are presented on a Census basis.

Source: *U.S. Department of Commerce News (FT 900)*, Oct. 1994.

Table 4
U.S. exports and imports of goods with major trading partners, Jan. 1993-Aug. 1994
(Billion dollars)

Country/area	Exports Aug. 94	Exports Jan.-Aug. 94	Exports Jan.-Aug. 93	Imports Aug. 94	Imports Jan.-Aug. 94	Imports Jan.-Aug. 93
North America	14.3	106.2	93.6	15.3	112.7	98.1
Canada	9.9	73.1	66.1	11.0	81.4	72.5
Mexico	4.4	33.1	27.4	4.4	31.3	25.6
Western Europe	9.1	76.8	74.7	10.7	84.2	74.7
European Union (EU)	7.8	66.6	63.6	9.2	71.7	63.2
Germany	1.4	12.3	12.7	2.6	20.5	18.5
European Free-Trade Association (EFTA)[1]	1.0	8.0	8.2	1.3	11.1	10.3
Former Soviet Union/ Eastern Europe	0.5	3.4	3.8	0.5	3.5	2.1
Former Soviet Union	0.3	2.3	2.3	0.3	2.3	1.2
Russia	0.2	1.6	1.6	0.3	1.9	1.0
Pacific Rim Countries	13.3	96.4	85.5	24.3	166.6	146.9
Australia	1.0	6.4	5.4	0.3	2.1	2.2
China	0.9	6.6	5.5	4.2	24.2	19.7
Japan	4.9	35.1	31.9	10.7	77.0	68.8
NICs[2]	5.2	38.2	34.2	6.6	45.4	41.7
South/Central America	3.4	26.0	23.9	3.6	25.0	22.9
Argentina	0.4	2.9	2.3	0.1	1.1	0.8
Brazil	0.6	4.7	3.8	0.8	5.7	4.8
OPEC	1.3	11.4	12.4	3.1	20.5	21.9
Total	43.4	330.4	304.3	59.2	423.8	376.1

[1] EFTA includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.

[2] The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan.

Note.—Country/area figures may not add to the totals shown due to rounding. Exports of certain grains, oilseeds and satellites are excluded from country/area exports but included in total export table. Also some countries are included in more than one area. Data are presented on a Census Bureau basis.

Source: *U.S. Department of Commerce News (FT 900)*, Oct. 1994.

Table 5
Nominal U.S. exports and trade balances of services, by sectors, Jan. 1993-Aug. 1994 seasonally adjusted

Sector	Exports		Change		Trade balances	
	Jan.-Dec. 93	Jan.-Aug. 94	Jan.-Dec. 93 over Jan.-Dec. 92	Jan.-Aug. 94 over Jan.-Aug. 93	Jan.-Dec. 93	Jan.-Aug. 94
	Billion dollars		Percent		Billion dollars	
Travel	57.6	39.9	6.2	4.6	17.06	10.37
Passenger fares	16.5	11.1	-2.5	0.4	5.13	2.94
Other transportation	23.1	16.0	2.0	4.4	-1.35	-0.80
Royalties and license fees	20.4	14.3	2.4	5.5	15.56	10.45
Other private services[1]	54.9	38.5	7.6	6.7	22.75	15.22
Transfers under U.S. military sales contracts	11.4	7.1	5.4	-12.3	-0.77	-0.30
U.S. Govt. miscellaneous services	0.8	0.5	-5.8	-19.0	-1.53	-1.23
Total	184.8	127.4	4.7	3.7	56.85	36.75

[1] "Other private services" consists of transactions with affiliated and unaffiliated foreigners. These transactions include educational, financial, insurance, telecommunications, and such technical services as business, advertising, computer and data processing, and other information services, such as engineering, consulting, etc.

Note.—Services trade data are on a Balance-of-Payments (BOP) basis. Numbers may not add to totals because of seasonal adjustment and rounding.

Source: *U.S. Department of Commerce News (FT 900)*, Oct. 1994.

INTERNATIONAL TRADE DEVELOPMENTS

Brazilian President-Elect To Face Challenges and Opportunities

On October 3, 1994, Brazilians elected Fernando Henrique Cardoso to be Brazil's 36th president. Although trailing in opinion polls by a significant margin earlier in the year, Cardoso garnered 54 percent of the October popular vote—a margin of victory that means he does not face a November runoff. The President-elect is set to begin a 4-year term of office on January 1, 1995. His immediate challenge will be to expand an ongoing anti-inflation program and to nurture Brazil's nascent economic recovery. Cardoso's large popular mandate for stability and continuity of economic policies could buy his incoming administration room to maneuver fiscal reform legislation, which entails changes to the Brazilian constitution, through congress. With many trade policy reforms already in place—since 1990 Brazil has significantly opened many sectors of the economy to international competition and investment, lowered tariff barriers, and moved to fully participate in plans to create MERCOSUR, a four-nation South American common market—the president-elect will have significant momentum to provide the world's 10th largest economy with a period of low inflation and sustained economic growth.

Fernando Cardoso, a sociologist known once for his left-of-center views, was appointed finance minister in the outgoing Franco administration in June 1993. He was the fourth person to hold the post during a 7-month period. As finance minister, Cardoso was the chief architect of the economic stabilization plan known as the *plano real* that was implemented during 1994. Cardoso stepped down as minister in March 1994 to run for President. Cardoso's electoral victory, based on a political coalition of conservatives, centrists, liberals, and business people, was attributed largely to the success of the *plano real* in reducing inflation and stabilizing the Brazilian economy. Cardoso's chief opposition, Luiz Inácio Lula da Silva, unsuccessfully attempted to rally popular opposition to the *plano real* late in the election. Lula headed a coalition predominately of trade unions and leftist parties that favored greater state intervention in the economy, a less aggressive anti-inflation program, and more spending on social welfare programs. Lula was defeated in Brazil's 1989 Presidential election by Fernando Collor. President Collor, who stepped down from office and was impeached in 1992 on corruption charges, was succeeded by then-Vice President Itamar Franco. Collor was Brazil's first democratically elected president since a 1964 military coup.

During 1993, the Brazilian economy gradually improved in several respects. Real economic growth (measured by gross domestic product) was 5 percent in 1993 versus a 1-percent contraction in 1992 and 1-percent growth in 1991. Exports increased steadily from \$31 billion in 1991 to \$39 billion in 1993, allowing the trade surplus to rise from \$10 billion to nearly \$14 billion and, more dramatically, nongold foreign reserves to rise from \$8 billion to over \$25 billion during the same period. However, very high inflation accompanied much of this economic expansion. Despite a drop in annual consumer price inflation from nearly 3,000 percent in 1990 to 440 percent in 1991, inflation rose to 1,000 percent in 1992 and to over 2,100 percent in 1993. Mirroring the rise in inflation was a general deterioration of the Brazilian exchange rate. Many Brazilians hedged against inflation by converting their currency into U.S. dollars. This demand for dollars caused the average exchange rate for the *cruzeiro* to depreciate from 68 per dollar in 1990 to 406 per dollar in 1991, to 4,500 per dollar in 1992, to 68,000 per dollar in July 1993; the *cruzeiro real* moved from 91 per dollar in August 1993 to more than 1,600 per dollar in May 1994. (The Brazilian currency has been renamed and revalued several times in attempts to regain monetary control. In March 1990, the *cruzeiro* (Cr) replaced the *new cruzado*. In August 1993, the *cruzeiro real* (CR) replaced the *cruzeiro* at a rate of CR1=Cr1,000.)

Cardoso's main accomplishment as finance minister was the design of the *plano real*. The plan was unveiled in December 1993 and implemented in three phases. Phase 1, tax increases and spending cuts to pare deficit spending, was introduced in January 1994 and met immediate congressional opposition. The

Brazilian congress approved only part of the proposed spending cuts and tax increases, forcing the Franco administration to rely on emergency measures rather than on a formal budget to control spending during 1994. Phase 2, inflation reduction, began in March 1994 with a program designed to phase out indexation.[1] This phase introduced a new price and wage index, the *unidade real de valor* (unit of real value (URV)). The URV was a transitional price index tied to the U.S. dollar (that is, given a fixed parity with the dollar exchange rate). Wages, new contracts, and the prices of government-controlled goods, services, and assets were forced to convert to the URV on March 1. Retail prices were exempt. With many prices and wages indexed to the URV, and the URV linked to the dollar, the effect of phase 2 was to indirectly "dollarize" a large segment of the Brazilian economy and to slow "inertial inflation" inherent in other price and wage indexes.

Phase 3 of the *plano real*, the most far-reaching part of the stabilization program, entailed monetary reform. A new currency, the *real* (Brazil's fifth currency in 10 years), was introduced on July 1 with an initial value of $1.00. The Brazilian central bank stood prepared to intervene in financial markets, using the country's large international reserves, to ensure that the *real* did not depreciate beyond the initial dollar parity. Since implementation of this final phase of the *plano real*, monthly inflation dropped from 50 percent in June 1994 to 1.5 percent in September, giving Brazilian consumers a real increase in purchasing power for the first time in years. Monthly interest rates for a 30-day certificates of deposit fell from 47 percent in June to 2.7 percent in September. In August 1994, exports were a record $4.2 billion, despite appreciation of the exchange rate (discussed below) and could total $40 billion in 1994 for a $12 billion trade surplus, according to current estimates. Also in August, nongold reserves reached a record $43 billion and Brazil saw a record $1.5 billion in net new foreign investment. At the same time, the reduction of inflation sharply cut Brazil's demand for dollars. Indeed, the *real* appreciated from its July 1 initial value of $1.00 to $0.83 in mid-October.

Against the background of more stable macroeconomic performance, the Franco administration experienced mixed results in other areas of economic policy. There was limited success in renegotiating part of the country's $136 billion foreign debt. In April 1994, Brazil concluded an agreement rescheduling $35 billion of the country's medium-term commercial bank debt. This debt renegotiation agreement was not as far-reaching as it might have been because Brazil was unable to provide a more detailed account of its economic program to the International Monetary Fund. The Franco administration fell significantly behind on a privatization program originally launched under former President Collor. Privatization of unprofitable or poorly managed government-owned entities stands to reduce the Federal deficit, but privatization has met stiff resistance from the Brazilian congress and labor unions. In addition, the Franco administration tried, but failed, to obtain congressional approval (three-fifths of both congressional houses must consent) for constitutional reforms to expand the tax base and simplify the tax collection system, transfer more spending responsibility from the Federal Government to the State and municipal government, and reduce Federal spending.

Despite many remaining challenges in domestic economic management, President-elect Cardoso inherits a significantly more liberal, outward-oriented trade policy regime. In October 1992 Brazil ended its "market reserve" practice for the computer industry that effectively prohibited foreign entrants in Brazil's domestic computer market. Moreover, a new "informatics" law significantly reduced tariffs on computers and equipment containing digital components, although some tariffs have been replaced by taxes on foreign products. Brazil has taken steps to liberalize the telecommunications market by reducing tariffs on telecommunication equipment. Legislation to update Brazil's intellectual property regime has been pending in the Brazilian Congress since 1991. In 1993, the Brazilian Chamber of Deputies passed an industrial property bill providing product or process patent protection for pharmaceuticals, processed foods, metallurgical alloys, chemicals, and biotechnological inventions. The legislation is pending before the Brazilian Senate. This year, the Brazilian Government introduced amendments to the pending legislation to bring it into line with the recently signed accord on intellectual property negotiated during the Uruguay Round trade talks. Improved market access for computer products and new Brazilian legislation to provide patent protection could put to an end longstanding sources of U.S. disputes with Brazilian trade practices.

Another sign of Brazil's new outward-oriented trade policy is its increased participation with neighboring Argentina, Paraguay, and Uruguay to form South America's largest subregional trade bloc,

[1] Indexation refers to automatic monthly increases in prices and wages in line with the prior month's inflation. Indexation has long been a feature of the Brazilian economy, as has been the use of a complex system to average a number of price indexes. By allowing monthly automatic price and wage increases, indexation mitigates the immediate effects of inflation on producers and consumers. However, automatic accommodation of inflation contributes to inflationary momentum in the economy.

MERCOSUR. Since 1991, the MERCOSUR countries have planned to create a single market for goods, capital, and services. They were unable to sufficiently harmonize their economies largely because of Brazil's macroeconomic instability, and they were plagued by reluctance to implement a common external tariff for non-MERCOSUR imports. In August 1994, the MERCOSUR countries pledged to form a customs union effective January 1, 1995. When the customs union comes into effect, all four countries would apply tariffs of 0-20 percent ad valorem to nearly all of their imports from non-MERCOSUR countries. Brazil actually implemented the lower MERCOSUR tariffs ahead of schedule, in September 1994, as part of the *plano real* price stabilization efforts to counter rising domestic prices.

To consolidate the economic stabilization program, President-elect Cardoso will need to act early in his administration to maintain low inflation, stabilize the exchange rate, and to reduce the Federal deficit. The *plano real* is stimulating consumer demand, but, because many industrial sectors are already operating near capacity, greater demand could lead to shortages of goods and higher prices. Inflationary pressure could receive a further boost late in 1994 when major business sectors begin wage reviews and when workers receive a traditional December bonus wage. The Brazilian Government's recent dollar purchases to prevent further appreciation of the *real* in dollar terms could aggravate inflation by putting more local currency into circulation. Further appreciation could result from foreign capital inflows as Brazil's more stable economy attracts increased foreign investment. Additional appreciation also could make Brazilian exports less competitive and cause the trade surplus to deteriorate.

After his January 1 inauguration, President Cardoso will have 1 month with a lame-duck congress until the new legislature is seated. (Congressional elections also were in October 1994.) Both the outgoing and incoming congressional bodies are likely to support, initially at least, the President-elect's fiscal reforms in view of Cardoso's first-round electoral mandate. Cardoso indeed may have an "ideological majority" in Brazil's normally fragmented congress once the new legislative session goes into full throttle following the traditional austral summer vacation month of January and the week-long Carnival holiday in February. In late October, after his electoral victory was confirmed, Cardoso announced that improving social welfare would be a priority of his administration. He announced a planned $4 billion antipoverty program and a massive infrastructure-rebuilding scheme. Brazil's main stock exchanges fell sharply after these remarks.

The resumption of sustained low-inflation economic growth in Brazil has ramifications that would extend throughout the hemisphere. Brazil is the third-largest economy in the hemisphere, after those of the United States and Canada, and is the hemisphere's second most populous nation after the United States. A stronger Brazilian economy will benefit the Latin American countries that depend on the Brazilian market. Brazilian exports to the rest of Latin America were valued at $9.7 billion in 1993, while imports were in excess of $5.0 billion. The United States, Brazil's largest single trading partner, also stands to benefit from a Brazilian economic upturn. U.S. exports to Brazil were over $6.0 billion in 1993, with imports of about $8.0 billion.

Chile's Trade Agreements With Latin American Partners

In 1992, President Bush announced that Chile would be the next country with which the United States would negotiate a free-trade agreement, after the North American Free-Trade Agreement (NAFTA) and Uruguay Round negotiations were complete. Since that time, a free-trade agreement with the United States, possibly leading to full NAFTA membership, has been a trade policy priority of the Chilean Government. President Clinton also pledged to begin free-trade negotiations with Chile once NAFTA and Uruguay Round negotiations were complete. However, in September 1994 the Clinton administration was forced to drop a request for fast-track negotiating authority—key to obtaining congressional approval for a free-trade agreement—from the Uruguay Round implementing legislation Congress is to consider in late 1994. Although the administration does not need fast track authority to commence trade negotiations, several U.S. sources have noted that serious trade negotiations are not likely to occur until fast track authority is approved. Nevertheless, issues related to the future course of hemispheric economic integration will figure prominently among discussions at the December 9-11, 1994, Summit of the Americas in Miami, a meeting of the hemisphere's 34 democratic heads of state.

In the absence of a coherent hemispheric economic integration scheme, many Latin American nations are creating a patchwork of subregional trade agreements at their own initiative—most leading to subregional free-trade before the year 2000. In particular, Chile continues to pursue bilateral and plurilateral preferential trade arrangements with other Latin American countries. Chile began efforts to strengthen its trade ties within Latin America during the Aylwin

administration (1990-94), and efforts have continued under the current administration of Eduardo Frei.

Since 1991, Chile has concluded four major bilateral agreements with Latin American partners. These agreements fall under the umbrella of the Latin American Integration Association (known both by the Spanish acronym ALADI and the English acronym, LAIA). Chile's recently established "economic complementarity agreements" with Mexico, Colombia, Venezuela, and Bolivia are forms of the trade-liberalizing "partial-scope" arrangements envisioned within the framework of ALADI. A description of the four agreements follows.

Three of the four agreements are largely identical in structure. The agreement with Mexico was concluded first, and formed the template for subsequent agreements with Venezuela and Colombia. The agreements with Mexico, Venezuela, and Colombia have as short-term goals the establishment of comprehensive bilateral free trade areas with Chile. The agreement with Mexico was preceded by an "accord" of October 3, 1990, that committed both countries to the elimination of all nontariff barriers by the end of 1995. This commitment is enshrined in the agreement, with a notable acceleration of the deadline to January 1, 1992. Each of these agreements calls for the elimination of tariff and nontariff barriers to nearly all two-way trade. Exceptions to this liberalization commitment are contained in each agreement.

The agreement with Bolivia, on the other hand, is much more limited. In the tariff area, it primarily deepens nonreciprocal preferences already granted by Chile to relatively less developed Bolivia, although Bolivia is committing itself to reduce tariffs on some Chilean products. However, some rules and consultative mechanisms that are the same or similar to those contained in the other three agreements are included in Chile's agreement with Bolivia. The Bolivian agreement also contains several innovations relative to the other three. It contains a section on energy complementarity that promotes the integration of energy between the two countries and addresses the possibility of imports of Bolivian natural gas. A gas pipeline from Bolivia to Chile is already slated for construction. The section on economic cooperation is broader than comparable sections in the other agreements. For example, it calls for development of tourist activity, promotes further exchanges of technology, and recognizes the importance of cooperation in environmental protection.

Tariffs

The agreements with Mexico, Venezuela, and Colombia call for complete tariff elimination, with specified exceptions. Timetables differ; the agreement with Mexico calls for complete tariff elimination by January 1, 1998, but the agreements with Colombia and Venezuela call for elimination by January 1, 1999.

As members of the Andean Pact, Colombia, and Venezuela have a common four-tiered external tariff. Thus, their tariff reduction commitments under their separate agreements with Chile are identical. The four major tariff categories and rates at signing were—20 percent for consumer goods; 15 percent for intermediate and capital goods produced domestically; 10 percent for intermediate/capital goods not produced domestically; and 5 percent for raw materials.

Chile's duties, which were generally 11 percent at the signing of the agreements, will be reduced to zero by 1997. Duties on items receiving extended treatment will be eliminated by 1999. The same timetables apply to Chilean goods shipped into Colombia and Venezuela.

The Chile-Mexico agreement is different. It has a "maximum common tariff" scheme applicable to both countries. The 10-percent rate applicable to most goods at the time of the signing of the agreement is to fall gradually, in 2.5-percent increments, during a 4-year period, and for most duties to be eliminated by 1996. The staged reductions for goods on the exceptions list will occur in 2-percent increments over 5 years, with all duties between Chile and Mexico being eliminated by 1998.

In the case of the agreements with Mexico, Venezuela, and Colombia, all goods not specifically exempted are covered by the tariff elimination commitments of the agreement. Tariffs are on two tracks, with tariffs on sensitive items phased out more slowly than those on other goods. With the exception of the agreement with Bolivia, even products exempted from tariff elimination are covered by the signatories' commitment to refrain from introducing new restrictions on imports originating in the other party. In Bolivia's case, the standstill commitment only applies to the rather limited list of products covered by the agreement.

Mexico

By January 1, 1996, 80-85 percent of Chile's imports from Mexico will be duty-free. A second group of products, mainly textiles, petrochemicals, and

some auto parts, will become free of duty by 1998. Products exempt from any tariff reductions number 76 for Chile and 91 for Mexico; they include petroleum and seafood/shellfish from Mexico, and wheat, flour, and cooking oil from Chile.

Venezuela

In the case of Venezuela, 90 percent of trade (including unused motor vehicles) will be fully liberalized by January 1, 1997; liberalization of most of the remaining trade will be complete by January 1999. Items subject to this longer phase out include—pork, poultry, dairy products, corn, rice, grain sorghum, flour (except wheat), oilseeds, fats and oils, processed foods, tobacco, chemicals, plastic products, flat-rolled iron or nonalloy steel. Exempted are certain dairy products (milk, cheese), cooking oils, petroleum and products, other fuels, petrochemicals, wheat, manufactured tobacco, wood and wood products, and ceramics and glass.

Colombia

Tariffs on a specific list of traded goods, accounting for 40 percent of two-way trade, were already subject to a previously negotiated preferential arrangement between Chile and Colombia under ALADI. As of the January 1994 implementation of the latest agreement, these duty-free items were incorporated into the agreement. A 3-year implementation period was allowed for elimination of tariffs on most other goods. Additional staging was allowed for some products; these duties are to be eliminated by 1999, when most products of bilateral trade will be covered. Exclusions from the agreement include oil, coal, and textiles from Colombia and copper from Chile.

Bolivia

The agreement essentially is one of tariff preferences, explicitly spelled out, and all of which take effect at the same time (July 1, 1993). Annex I contains 19 items on which Chile grants nonreciprocal tariff concessions to Bolivia; annex II contains preferences granted to Chile by Bolivia, some of which are 100-percent preferences (that is, duty-free treatment), and others of which are a deepening of already approved preferences; annex III, similar to annex II, applies to preferences granted to Bolivia by Chile; and annex IV specifies those previously agreed upon bilateral preferences that are not being deepened under the terms of the agreement.

Major Nontariff Provisions

The matrix at the bottom of the page highlights key nontariff features of the four agreements.

Each of the major provisions of the agreements are described below and starred items are explained more fully in terms of common features and then exceptions.

Discipline	MX	V	C	B
Provides for reciprocal tariff elimination (-by)	Y-98	Y-99	Y-99	N
Includes one-way tariff preferences	N	N	N	Y
Eliminates non-tariff barriers	Y	Y	Y	N
Contains commitment not to introduce new barriers	Y	Y	Y	Y*
Adopts ALADI Res. 78 rules of origin (50%)	Y	Y	Y	Y
Contains special provisions on automotive trade	Y	Y	Y	N
Permits safeguards in accordance with ALADI Res. 70	Y	Y	Y	Y
Permits antidumping and CVDs conforming with GATT	Y	Y*	Y*	Y
Mentions intellectual property protection	Y	N	Y	N
Establishes committee to administer agreement	Y	Y	Y	Y
Creates binding dispute settlement mechanism	Y	Y	Y	Y
Calls for liberalization of government procurement	Y	Y	Y	N
Calls for work to prevent technical barriers	Y	Y*	Y	Y*
Liberalizes sea and air transportation	Y	Y	Y*	N
Affirms parties commitment under ALADI to accord partner investors national and MFN treatment	Y	Y	Y	Y
Permits negotiated accession by ALADI members	Y	Y	Y	Y
Requires parties to automatically adjust bilateral tariffs after negotiations with third countries	N	Y	Y	N

Goals.—The Venezuela and Colombia agreements have as their long-term goals the establishment of an enlarged economic area, which will eliminate taxes and other restraints on the imports originating in these countries and allow for the free flow of goods, services, and the factors of production. The Mexico and Bolivia agreements contain no such language.

Automotive Trade.—The agreements with Mexico, Venezuela, and Colombia specifically address automotive trade. In the case of Mexico, virtually all motor vehicle imports into Mexico are to be free of tariffs and nontariff restrictions by 1996. Sixty-eight percent is the ceiling for the value that may originate outside of Chile and/or Mexico. However, up to specified quantitative limits, certain automobiles that exceed the 68-percent requirement may benefit from the agreement.

In the case of Colombia, automotive imports are to be free of tariffs and nontariff restrictions by 1994. Of course, as a member of the Andean Free-Trade Area, Colombia normally applies a common external tariff for automobile imports of 25 percent. The rule of origin applicable to automobiles and commercial vehicles is 60 percent, while that for automotive parts is 50 percent, the ALADI standard and that adopted for the bilateral agreement in general.

Rules of Origin.—Each agreement commits the parties to use the rules of origin contained in ALADI Resolution 78 for purposes of determining which products are eligible to benefit from the agreement (50 percent).

Accession.—Each of the agreements are open to accession by other ALADI members, upon negotiation with the partners.

Negotiations with Third Countries.—None of the agreements calls for application of common external tariffs. However, the agreements with Colombia and Venezuela commit the parties to immediately readjust the tariffs they apply to the other party if negotiations with a third country result in the lowering of tariffs on third country goods.

Services.—Each of the agreements contain commitments to liberalize services trade, with specific commitments in the air- and sea-transport sectors. The agreement with Colombia recognizes that their aviation authorities had already agreed to provide each other's carriers with landing rights, and commits them to implement this access.

Labor, Technology, and Intellectual Property Rights.—The agreement with Venezuela commits parties to take steps to increase bilateral flows of labor and technology. In the agreements with Mexico and Colombia, signatories undertake to grant appropriate protection to IPR. The agreement with Bolivia calls for cooperation on copyright and industrial property protection rules.

Government Procurement.—Each agreement commits the parties to develop rules regulating government purchases between the signatories so as to ensure unrestricted and competitive access for each others' suppliers. The Administrative Committee (or Commission) is to develop the terms that will regulate government purchases between the signatories (in the case of Venezuela, within the first year of the agreement's operation).

Investment.—Each agreement reaffirms the parties' commitment under ALADI to provide national or most-favored-nation treatment to investors from the other party, whichever is most favorable.

State Trading.—Each agreement commits the parties to conduct activities of state enterprises that affect bilateral trade in a nondiscriminatory manner.

Technical Standards and Export Promotion Measures.—Each of the agreements with Mexico, Venezuela, and Colombia contains a commitment to develop measures to prevent technical regulations and export promotion measures from distorting bilateral trade. (The agreement with Bolivia only calls for technical cooperation in this area.) The agreement with Colombia is more detailed, containing an illustrative list of factors to be considered when developing proposals to prevent the introduction of technical barriers to trade, as well as a separate section on sanitary and phytosanitary measures that incorporates by reference a bilateral agreement on technical cooperation in this area.

Safeguards.—Each agreement permits unilateral application of nondiscriminatory safeguards for up to 1 year; such safeguard measures may only be extended after a joint review by the signatories. The extension is not to exceed 1 year (for a total of 2 years' protection).

Antidumping and Countervailing Duties.—Each agreement permits unilateral application of antidumping and countervailing duties in accordance with domestic law and procedure and the General Agreement on Tariffs and Trade (GATT). The agreements with Venezuela and Colombia require an injury determination before antidumping (AD) and countervailing (CVD) duties can be applied, and they incorporate by reference the Tokyo Round Antidumping and Subsidies Codes. The agreement with Mexico does not explicitly mention an injury test or the two codes. (Mexico is not a signatory to the Subsidies Code; Chile is not a signatory to the Dumping Code.)

Dispute Settlement, Administration, Transparency.—Each of the agreements contains a binding dispute settlement mechanism with timetables, and each establishes a committee (or commission) to

administer and ensure compliance with its provisions. They also require signatories to make known any change in their foreign trade regulations within 30 days of the promulgation.

Entry into Force.—Each agreement entered into force immediately after signature. The agreement with Mexico was signed in September 1991, those with Bolivia and Venezuela in April 1993, and that with Colombia in December 1993.

Current Status

Chile has frequently been explicitly mentioned as the first country in line for another free-trade agreement after the NAFTA. The exact route to this goal is unclear. Both Mexico and Canada have indicated a willingness to proceed with NAFTA accession. (In fact, the Canadian trade minister recently indicated that Canada is prepared to negotiate a separate bilateral free-trade agreement with Chile if NAFTA negotiations fail to materialize.) The United States has not yet indicated its position on either future NAFTA accessions or bilateral FTAs. Similarly uncertain is the position of countries like Venezuela, Bolivia, and Colombia that have signed so-called complementarity agreements with Chile. December's Summit of the Americas in Miami might provide some clarity. In December 1993, Mexico, Colombia, and Venezuela, the so-called Group of Three, agreed to work towards the creation of a three-way free-trade area among themselves within the next few years. Chile and Mexico have also announced their intention to align their own bilateral agreement with NAFTA. The dimensions of that revision are not yet clear, but work is reportedly underway. The issue to be presently determined is whether Chile should continue its bilateral trade diplomacy in the form of a free-trade agreement with the United States, or whether trilateral negotiations with all NAFTA partners is the next order of business. The ramifications of this decision extend significantly beyond Chile.

Chile's trade agreements with its ALADI partners help to more closely align Latin America with the stable, open Chilean economy. The Chilean "anchor point" may be an important incentive for Latin American countries to continue their trade-liberalizing and market-opening economic reforms. Such steps undoubtedly would be essential preconditions for hemispheric free trade. However, the recent *Agenda for the Americas: A White Paper on the Views of the Business Community*, by the U.S. Chamber of Commerce Western Hemisphere Working Group, cautions that the proliferation of bilateral agreements could impede the transition to a broad regional agreement unless smaller agreements begin to merge and broaden their membership.

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TRADE ISSUES OF THE 1990S - PART I

Introduction

With the December 1993 conclusion of the Uruguay Round and the April 1994 signing of the *Final Act* embodying its agreements, countries are turning their attention to other issues that affect the continued expansion of world trade and the ever higher living standards that trade expansion helps to generate. In the United States, these issues are arising as Congress considers legislation to implement the Uruguay Round agreements. The Clinton administration has already raised, for example, the environment and workers rights as two new subjects that it would like to address in trade legislation during its initial efforts to renew fast-track trade-negotiating authority. These are two of the current subjects that, when grouped together, are variously known as the "trade issues of the 1990s" or the "new trade agenda." The new trade agenda represents subjects unresolved by the Uruguay Round or subjects that governments are concerned may need attention in the years ahead.

Some "new" trade issues have long been issues of international economic talks. Some date back to the end of World War II, when they were raised in connection with the ill-fated Havana Charter that would have created the International Trade Organization (ITO). What is new about these issues is the growing recognition of national economies knitting closer together, whether due in part to the fall of East-West barriers after the collapse of Soviet communism; due to the accelerated regional integration under such initiatives as the European Union (EU) or the North American Free-Trade Agreement (NAFTA); or due to the advances in technological innovation, transportation, and telecommunications that are spurring local firms towards global markets. The unremitting pace of this "globalization" of industrial production is pressing national governments to manage the increasingly complex intertwining of domestic and international policies, creating new guidelines, rules, and disciplines as need be. This new focus has been something largely ignored because, until now, domestic policies were considered the exclusive domain of sovereign nations.

New Dimensions of Trade Policy

Despite differences of interpretation, most developed countries—and many developing countries as well—were in rough agreement by mid-1994 that the 1990s trade agenda is likely to encompass some if not all of the issues concerning—(1) environmental policy, (2) competition/antitrust policy, (3) investment policy, (4) labor standards policy, (5) industrial support policy, and also (6) technological innovation.

The success that the Uruguay Round met in many areas, both traditional and new, owed much to groundwork discussions held in the Paris-based Organization for Economic Cooperation and Development (OECD). It is thus not surprising to find the most advanced multilateral discussion of such upcoming trade issues at the OECD. The OECD ministers first identified three areas of interest in their 1991 and 1992 communiques: environment, competition, and investment policies. The 1994 OECD communique then set labor standards in place as part of the new trade agenda. These communiques also indicated how to approach these four trade issues.

Concerning trade and environment, the ministers indicated that the OECD's future analysis will focus on—(1) developing guidelines to improve the compatibility of environment and trade policies, and (2) ensuring that environmental regulations and trade measures related to the environment do not act as disguised trade barriers.

Concerning trade and competition, the ministers pointed out that economic efficiency is the common goal of both trade and competition policy, also known as antitrust policy. The ministers agreed that, inasmuch as these two policy areas are closely related, that the OECD should look chiefly into—(1) how to improve consistency between trade and competition policies, (2) how to set the stage for bringing substantive rules and enforcement practices of competition policy in different national economies closer together, (3) how to find better ways to monitor trade and competition policies, and (4) how to promote consumers' interests.

Concerning trade and investment, the ministers considered both trade and foreign direct investment as issues closely related within international business strategies. Therefore, to improve market access, they concluded that policies in the two areas should be more consistent. Specifically, the ministers reaffirmed their interest in having a feasibility study conducted on a wider OECD "investment instrument" that would give investors a charter with broader and more consistent rules to promote investment over a wider geographic area.[2]

Current Status

The new trade agenda issues under study are at various stages of progress. The issue which has been under discussion the longest time is trade and environment, which is clearly the most advanced and widely discussed issue in the OECD, the WTO, and elsewhere. The main workplace for multilateral discussion of trade and the environment is expected to shift from the background development done at the OECD to more operational aspects under the General Agreement on Tariffs and Trade (GATT) and its anticipated successor, the World Trade Organization (WTO). The WTO Committee on Trade and the Environment will take up its work in 1995.

The issues of trade and competition policy and of trade and investment policy are roughly equal in their development. However, trade and investment is somewhat more advanced simply because the subject of investment has so often and for so long been considered within the context of trade issues. The 1961 OECD Codes of Liberalization and 1976 Declaration on International Investment are representative of earlier efforts to improve the worldwide flow of investment capital. Current efforts to develop a multilateral investment agreement aim to invigorate such instruments in response to globalization.

In the months following the December 1993 conclusion of the Uruguay Round, the United States attempted to persuade participants to include the subject of internationally recognized labor standards as part of the political declaration issued at the signing of the *Final Act* in Marrakesh, Morocco, on April 15, 1994. Although accepting only an oblique reference as part of the declaration, the participants did recognize that labor standards could be legitimately raised as a trade topic when the WTO takes up its function as the successor to the GATT in charge of implementation of the Uruguay Round trade agreements.[3] Following the Marrakesh ministerial, the OECD ministers met in June 1994 and adopted trade and labor standards as part of the 1990s trade issues agenda. As proposed by the United States, the focus is expected to be on the relationship between trade and five of the most widely recognized labor principles developed by the International Labor Organization of the United Nations. The United States uses these standards in such programs as its Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI).

Lastly, the issue of trade and technology may very well become part of the 1990s trade agenda. The interrelated issues of trade and technology, innovation, and government subsidies involve government financial support for research and development in what has been characterized as a newer version of the industrial policies in evidence in the 1960s. This industrial support is typically targeted on advanced technologies, critical industries, or innovative firms.

An elaboration follows on the state-of-play in multilateral discussion of these subjects. This month's *IER* examines the most longstanding and thus most advanced issue under discussion—trade and the environment. Next month's *IER* will cover the other 1990s trade issues, both those that are already part of the new trade agenda—trade's link with competition policy, with investment, and with labor standards—as well as those not yet part but which are likely to be in the future—trade and technology, innovation, and subsidies. With the most structured and advanced treatment of these issues taking place in the OECD, the following look at the 1990s trade issues will be primarily, but not exclusively, from the perspective of these discussions. Related discussions have been touched upon wherever possible, such as those in other multilateral, regional, or national fora like the GATT/WTO or the NAFTA.

Trade and the Environment

Beginning in 1988 and 1989, a resurgence of international concern over the environment was seen at the OECD in the growing sense of member-country responsibility regarding the "critical importance of integrating more systematically and effectively environment and economic decision-making, as a means of contributing to sustainable development."[4]

[2] Currently referred to as a multilateral investment agreement or MIA.

[3] Ministers, in the Marrakesh declaration, recognized that the WTO "ushers in a new era of global economic cooperation, reflecting the widespread desire to operate in a fairer and more open multilateral trading system for the benefit and welfare of their peoples."

[4] OECD, "Meeting of the OECD Council at Ministerial Level – Communique," June 1, 1989 (OECD: Paris, 1989).

In the 1989 Group of Seven (G-7) communique, the leaders of the seven largest industrial democracies said that they wished to emphasize "the urgency of global environmental threats, and specifically call upon the OECD to develop policies and policy instruments to address them."

Trade and Environment Issues in the GATT

It was not until 1991, however, that the trade and environment issue achieved wide prominence with the dispute in the GATT between Mexico and the United States over U.S. import restrictions on tuna. Although never formally concluded within the GATT dispute-settlement process—the case was withdrawn at the request of both parties—the "tuna-dolphin" case nonetheless set in motion scrutiny, within the GATT, of a number of issues raised by the case.

Tuna-Dolphin Case

The major issue raised was to what extent can multilateral trade measures—such as GATT article XX on general exceptions for the protection of human, animal, or plant health and the conservation of natural resources—be used to enforce a national environmental law—in this case, the U.S. Marine Mammal Protection Act of 1972 (MMPA). A related issue was whether the United States could legitimately require foreign producers to meet national standards that set requirements for the process used to produce the product, rather than for the end-product itself. The concern was that the U.S. national standards were in effect being applied extraterritorially to foreign producers to protect environmental resources (in this case, dolphins) that were not under U.S. jurisdiction.

The 1972 MMPA requires the U.S. Government to embargo imports of tuna products caught by foreign fishing boats that cannot prove that they meet the standard set under the act regarding tuna fishing, a standard aimed at protecting dolphins that are often caught in a particular type of net used in tuna fishing. The act also requires the U.S. Government to embargo tuna products from "intermediary" countries, that is, those that purchase tuna from countries directly subject to the embargo.

In February 1991, Mexico requested a GATT dispute-settlement panel following direct U.S. embargoes on Mexico, Vanuatu, and Venezuela, and indirect U.S. embargoes on Costa Rica, France, Italy, Japan, and Panama as intermediary countries. The panel concluded that U.S. import restrictions brought under the act were not justified on the basis of GATT article XX, nor did they conform to U.S. obligations under GATT articles III and XI regarding national treatment and elimination of quotas, respectively. However, in November 1991, both parties agreed to withdraw the dispute from multilateral consideration under the GATT in favor of finding a bilateral solution to the case.

Tuna-Dolphin II

Despite this inconclusive ending, the United States was widely regarded as having "lost" concerning the question of whether trade measures may be used legitimately to enforce environmental goals that include conservation of endangered species and other finite resources found only within the "global commons" or under the jurisdiction of foreign nations. Moreover, the panel report cast doubt on whether standards stated in terms of processes and production methods would be enforceable at national borders. This image has been reinforced by the second "tuna-dolphin" case, brought by the EU against the United States in July 1992. On behalf of the Netherlands, the EU requested a GATT dispute panel to examine U.S. restrictions under the MMPA's intermediary embargo on imports of tuna from the Netherlands Antilles, an autonomous part of the Netherlands.

Although established in 1992, the panel did not circulate its report until June 1994. At its first consideration before the GATT Council in July 1994, the United States said that the issues involved were of increasing interest to the public and requested that the GATT hold an open, public meeting to discuss the panel report and allow environmental groups to present their views, as well as to impart a greater credibility to the GATT multilateral trade system through such improved openness. A number of GATT members expressed serious concern about the ramifications for what such a proposal would mean for multilateral procedures and how decisions are made.

The report was brought up for consideration again in October, but, despite clear support for its adoption by other GATT members, the U.S. delegate responded only that their views would be reported to Washington. Although still restricted, the panel conclusions support the earlier tuna-dolphin decision that U.S. embargoes on imports of tuna under the MMPA are in violation of GATT articles III and XI. Further consideration of the panel report is likely at the annual meeting of the GATT Contracting Parties in December.

1992 GATT Trade and Environment Report

In October 1991, the GATT re-activated its long-dormant Working Group on Environmental Measures and International Trade to examine the

specific issues raised in the tuna-dolphin cases more broadly and to look at issues involved in the field of trade and environment.[5] The group's initial work program comprised examination of three issues—(1) trade provisions of multilateral environment agreements and their impact on multilateral trade rules; (2) the transparency of trade-related environmental measures; and (3) the possible trade effects of packaging and labelling requirements.

Arising out of a "structured debate" held within the GATT in May 1991, the GATT trade and environment report of February 1992 brought to light the complexities of balancing trade and environmental objectives. Coming to common terms has proven difficult where goods in one field are denominated in prices set by a market system while the other area comprises elements often regarded as "priceless"—such as human health, clean water, or scenic splendor. Finding common ground has only become possible recently as rhetoric from both sides has begun to yield more to joint discussion.

To the dismay of environmentalists, the thrust of the GATT report was that no country should discriminate against another's goods for environmental reasons, which would in essence unilaterally impose one country's environmental standard upon another country. Underlying this non-discriminatory view of domestic environment policy was the hypothesis that multilateral cooperation to deal with transborder environmental issues—such as acid rain or depletion of the earth's ozone layer or matters affecting the "global commons"—may not be the difficult task it first appears. The report cites, moreover, research suggesting that populations are increasingly able to demand a better quality environment as incomes rise.[6] Nevertheless, the report highlighted the need for an impartial dispute-settlement mechanism to mediate between countries when conflicts between trade and environmental goals arise. Lastly, the report points out the connection between agriculture and the environment, expecting that the world environment will improve directly as distortions in agricultural economic and trade policy are corrected through liberalization.

Environmentalist Concerns

The GATT report and outcome of the tuna-dolphin cases troubled environmentalists, who see the MMPA as instrumental in the protection of endangered marine animals and which view the report as evidence that the multilateral trade system is unresponsive to such environmental objectives. A broader concern within the environmental community, however, was that the GATT—a foreign, unelected trade body, not part of the U.S. Government—might continue to invalidate U.S. environmental efforts without any further recourse such as the environment community currently enjoys through national judicial systems and which has been used in the past with some notable success.

Closed GATT Procedures and Dispute Settlement

The environment community also criticized the "secrecy" surrounding the operation of the GATT. Closed-door trade negotiations, and the government-to-government multilateral system of trade rules that developed in response, stands in stark contrast to the open discussion and often grass-roots democratic tradition of much of the environment community. The lack of access to GATT documents and processes that would allow environmentalists to present their side of the trade and environment debate has on occasion earned the GATT staff the epithet of "faceless bureaucrats."

In response to this "lack of openness" charge, new procedures were worked out during the Uruguay Round negotiations for the forthcoming WTO, such as the publication of detailed summaries of GATT dispute-panel reports or the release of actual reports on a case-by-case basis—such as was done with the U.S.-Mexico tuna-dolphin panel report. However, from the perspective of certain U.S. interest groups, such measures are insufficient to improve access to the closed-door world of trade negotiations. In October, one such organization—Public Citizen—founded by consumers' rights advocate, Ralph Nader, sued the Office of the United States Trade Representative for the release of documents used in GATT dispute panels. On previous occasions, Public Citizen, in conjunction with several environmental groups, has also sued to have the Uruguay Round trade agreements accompanied by environmental impact statements as a requirement for consideration by the U.S. Congress. The suit over mandating such an impact statement was recently rejected, in October 1994, as was another similar suit brought the year before by Public Citizen and four environmental groups over requiring environmental impact statements for NAFTA.

National Sovereignty

An issue related to the lack of openness in the GATT multilateral trade process is that of national sovereignty. The grievance that GATT trade rules impair a nation's sovereign action underpins a number

[5] The group had been established originally in November 1971, prior to the first United Nations conference on the environment in 1972, known as the Stockholm Conference.

[6] See, for example, G.H. Grossman and A.B. Krueger, *Environmental Impacts of a North American Free Trade Agreement* (Princeton University: Princeton, 1991).

of current trade and environment issues. At one extreme, some environmentalists see trade liberalization *per se* as undesirable simply because it encourages economic growth that, by itself, damages the environment. More topical is the issue of GATT-led harmonization of product standards worldwide, which, the environment community is fearful, will homogenize environmental protection, weakening national environmental laws that are stronger-than-average even as other laws that are weaker-than-average are strengthened.

Sustainable Development

Another divide between the two communities regards economic development, particularly in the less developed countries (LDCs). When focussing on LDC economic development, the environment community often concentrates on particular aspects of development, such as massive burn-and-slash clearing of rainforest lands, clearcutting of tropical timber forests, pollution of land, sea, and sky through the use of industrial technologies outdated (and in some cases outlawed) in the developed countries, and other such practices.

The LDCs have remained clearly opposed to attempts to make their economic development more expensive through adoption of new environmental regulations. In response, the environmental community has developed the concept of "sustainable development," that—despite wide recognition that the environment and economic development are closely related—is an ambivalent indication of a goal that cobbles together two virtual opposites in the same phrase.

The most widely accepted definition of "sustainable development" was coined by the Norwegian Prime Minister Gro Brundtland, for whom development "meets the needs of the present without compromising the ability of future generations to meet their own needs." Although the foremost expression of the environmental community's desire for balance between economic and environmental goals, this definition points up the difficulty involved in assigning practical meaning to the term. Just determining the "needs" of the present can largely stymie any practical agreement. For example, one may ask whether the status quo is a "correct" allocation of "needs," where the sparse populations of the developed world consume vast amounts of the world's resources. Alternatively, one might ask whether worldwide livestock production should come to an end to free up resources that would allow world foodgrain production to increase to feed the world's poorest populations.

The NAFTA Trade and Environment Debate

Some environmentalists went so far as to suggest that the multilateral trade system itself might be incompatible with environmental protection. Not only might GATT rules diminish a sovereign nation's capacity to regulate environmental matters for the benefit of its own citizens. Taken to its maximum extent, multilateral trade liberalization might undermine environmental efforts on a worldwide basis simply because the world trade system is better able to recognize the benefits of economic growth, trade, and development than the consequences of unchecked growth on the environment.

Contemporaneous with trade and environment issues arising in the GATT, the 1992 signing of NAFTA also achieved notoriety regarding trade and environment issues. The agreement addresses trade and environment issues throughout the text—although it contains no specific environment section—generally yielding precedence to the provisions of the major multilateral environmental agreements should conflicts arise.[7] However, following the inauguration of President Clinton in January 1993, U.S. negotiators were directed to secure additional commitments that led to the negotiation of supplemental agreements on the environment and labor, to be implemented in tandem with the NAFTA.

The North American Agreement on Environmental Cooperation—the NAFTA supplemental environment agreement—establishes a Commission on Environmental Cooperation that will provide a process whereby concerns about environmental policies and their enforcement can be investigated and acted upon. Although certain of these concerns may prove unique to that particular trade agreement, some issues may have international repercussions. For example, issues associated with U.S.-Mexican border pollution and cleanup may pertain equally well to the transborder pollution and cleanup of the toxic chemical spill in the Rhine River that prompted the Basel Convention. Also, differential enforcement of environmental rules may apply equally well to the rudimentary environmental laws in developing countries that could attract capital from the more stringently regulated industrialized countries.

[7] These include the three foremost multilateral environmental agreements: (1) the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), (2) the Montreal Protocol on Substances that Deplete the Ozone Layer, and (3) the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, in addition to others.

1994 GATT Trade and Environment Discussions

At the Marrakesh signing of the *Final Act*, participants agreed to the "Decision on Trade and Environment" that laid the groundwork for continued discussion of trade and environment issues in the GATT/WTO by establishing the WTO Committee on Trade and Environment. The decision also set out the committee's initial work plan.

The committee will address the following items and any other issues relevant to them:

1. The relation between multilateral trade provisions and such measures used for environmental purposes, including provisions in multilateral environment agreements;

2. The relation between environment policies with significant trade effects and the world trade system;

3. The relation between the world trade system and—

   (a) charges and taxes,

   (b) environmental regulations, particularly product standards, technical regulations, packaging, labeling, and recycling;

4. The transparency of trade measures used for environment purposes;

5. The dispute-settlement provisions in both the trade and environment fields;

6. The market-access effects of environmental measures, and the benefits of removing such trade distortions or restrictions; and

7. The issue of exports of domestically prohibited goods.

The work of the forthcoming full Committee is being carried out by the subcommittee created with the Marrakesh signing of the *Final Act* and chaired by Ambassador Luiz Felipe Lampreia of Brazil. Since Marrakesh, the Subcommittee on Trade and Environment has met to discuss organizational affairs and to focus its discussions for the latter half of 1994. As part of these discussions, it held on June 10-11, 1994, a Symposium on Trade, Environment and Sustainable Development, open to government organizations and private associations with an interest in the area of trade and the environment.

In Fall 1994, the subcommittee will concentrate on issues of charges and taxes for environmental purposes, as well as environmental standards, regulations, packaging, labelling, and recycling requirements; on the relation between the multilateral trade system and trade measures taken for environmental purposes, including those in multilateral environmental agreements; and on the effect of environment measures on market access, especially for developing countries and in particular for those least developed.

Trade and Environment Issues in the OECD

Although past multilateral and bilateral efforts have yielded results concerning particular problems where trade and environment issues overlap, on a broader scale, the most dispassionate forum for identification and analysis of common issues and conflicts governing these two areas has been the OECD.

Procedural Guidelines for Policy Integration

In January 1991, the OECD Environment and Trade Directorates established a Joint Experts Group to examine the subject of trade and the environment, as well as the possible means to achieve goals common to both areas. At the June 1991 ministerial meeting, the OECD ministers called for "guidelines on ways to protect the environment and preserve the open multilateral system," which, following a 2-year work program, the group presented in June 1993.

The ministers endorsed these four procedural guidelines at their June 1993 meeting:

Transparency and Consultation

The transparency guideline reads—

> Governments should provide for transparency and for consultation with interested parties in the development and implementation of trade and environmental policies with potentially significant effects on each other.

At the intergovernmental level, governments should notify, publish, and consult, in accordance with international obligations, as well as provide timely access to relevant information upon request. Within the national government level, governments should integrate their own trade and environment decisions and policies by ensuring that policymakers and

officials consult where environmental policy processes may have potential trade effects and vice versa. Again at the national level, governments should "provide for input from interested non-governmental parties in the development of their approaches to policies and agreements at the trade/environment interface." Consultation processes will differ according to national political and legal practice and cultures, but they could include advisory committees, or participation in examinations of trade or environmental policies and agreements. Information also should be made available publicly by governments in advance of substantial modification of existing or proposed new trade or environmental policies. National governments should endeavor to encourage transparency at subnational levels as well.

Trade and Environmental Examinations, Reviews and Followup

The review guideline reads—

> Governments should examine or review trade and environmental policies and agreements with potentially significant effects on the other policy areas early in their development to assess the implications for the other policy area and to identify alternative policy options for addressing concerns. Governments may co-operate in undertaking such examinations and reviews. Governments should follow-up as appropriate: to implement policy options; to re-examine the policies, agreements and any measures in place; and to address any concerns identified in the conclusion of such re-examinations.

To date, the group has developed a checklist of items to be considered in trade and environment examinations and reviews. The review guideline also suggests that governments should respond to concerns generated by these reviews at their root causes. This could mean changing provisions of the agreement, or if that is not feasible, developing complementary measures outside the agreement.

International Environmental Cooperation

The cooperation guideline reads—

> Governments should co-operate to address transboundary, regional or global environmental concerns, in particular through the negotiation and implementation of environmental policies and agreements among the countries concerned, with a view to enhancing the effectiveness of environmental action and avoiding undue effects on trade.

The group believes the most effective way to address cross-border environmental concerns is through international cooperation. This cooperation should be based on the approach set out in the Rio Declaration and the work program called Agenda 21, that emerged from the June 1992 "Earth Summit" sponsored by the United Nations Conference for Environment and Development. The cooperation guideline exhorts parties negotiating international environmental agreements to recognize the potentially beneficial effects of trade on the environment and to see that such agreements do not unduly restrict trade or discriminate between domestic and foreign goods or producers. The group calls for "effective provisions for addressing disagreements" and seeks to ensure that actions taken "to deal with environmental challenges outside the jurisdiction of a country should not undermine the multilateral system."

Dispute Settlement

The dispute-settlement guideline reads—

> When, pursuant to an agreement between countries, a country is party to a trade dispute which has an environmental dimension, or to an environmental dispute which has a trade dimension, the government, in developing its national approach, should recognise the importance of taking into account, as appropriate, environmental, trade, scientific and other relevant expertise and should therefore work further to develop, as necessary, appropriate means to achieve transparency.

The dispute-settlement guideline envisions that "environmental and other relevant officials should be fully involved in developing positions on any trade dispute" with environmental dimensions, as should trade and other relevant officials be fully involved in environmental disputes that have a trade dimension. Non-government interests should be allowed to provide their views in these disputes.

Trade and Environment Work Plan for 1994/95

In developing the 1993 Procedural Guidelines, the Joint Experts Group concentrated on identification, description, analysis, and understanding of different factors involved in the trade and environment issue. In the next stage of work stretching into 1995, the group's three primary objectives will be—(1) to aid governments in understanding and addressing trade

and environment issues; (2) to provide material for the possible further development and elaboration of OECD guidelines on trade and environment; and (3) to provide a focused examination of issues that may provide input to negotiations in other fora. Key trade and environment issues that the group considers general areas for analysis are—

1. Methodologies for conducting examinations, reviews and followup of trade and environmental policies and agreements;
2. Effects of trade liberalisation on the environment;
3. Processes and production methods (PPMs);
4. Use of trade measures for environmental purposes;
5. The concept of life-cycle management and trade;
6. Harmonization of environmental standards;
7. Trade and environmental principles and concepts;
8. Economic instruments, environmental subsidies and trade; and
9. Dispute settlement.

The decided majority at the June 1994 OECD ministerial meeting considered that substantive conclusions concerning trade and the environment should be ready by next year. A report on member-government implementation of the Procedural Guidelines is also likely at the 1995 Ministerial meeting. Although members expect trade and environment work to continue at OECD for some time despite the aim for substantive conclusions by 1995, most foresee the background work already completed at OECD being recast toward the more operational orientation anticipated at the WTO.

Note.—The remaining trade issues of the 1990s will be covered in next month's *IER*.

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STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, Jan. 1991-September 1994
(Total Industrial production, 1985=100)

				1993			1994							
Country	1991	1992	1993	III	IV	Dec.	I	II	III	May	Jun.	Jul.	Aug.	Sept.
United States[1]	104.2	104.3	109.2	111.1	112.9	109.0	115.1	116.7	118.3	116.6	117.3	117.7	118.5	118.7
Japan	127.7	120.4	115.3	115.8	114.7	111.6	112.6	([2])	([2])	107.6	([2])	([2])	([2])	([2])
Canada[3]	113.8	114.9	118.0	121.2	119.6	115.5	117.0	([2])	([2])	([2])	([2])	([2])	([2])	([2])
Germany[4]	100.0	98.1	91.5	88.8	95.1	89.7	92.6	([2])	([2])	92.8	([2])	([2])	([2])	([2])
United Kingdom	109.0	108.6	111.1	105.1	116.7	110 8	118.7	([2])	([2])	113.0	([2])	([2])	([2])	([2])
France	114.2	112.9	108.6	97.3	111.5	110.0	([2])	([2])	([2])	113.7	([2])	([2])	([2])	([2])
Italy	116.8	115.3	112.8	96.0	116.3	105.4	119.2	([2])	([2])	125.0	([2])	([2])	([2])	([2])

[1] 1987=100
[2] Not available.
[3] Real domestic product.
[4] 1991=100

Source: *Main Economic Indicators;* Organization for Economic Cooperation and Development, August 1994, *Federal Reserve Statistical Release*; October 14 1994.

Consumer prices, by selected countries and by specified periods, Jan. 1991-August 1994
(Percentage change from same period of previous year)

				1993				1994							
Country	1991	1992	1993	II	III	IV	Dec.	I	II	Mar.	Apr.	May	Jun.	Jul.	Aug.
United States	4.2	3.0	3.0	3.1	2.7	2.7	2.7	2.5	2.4	2.5	2.4	2.3	2.5	2.8	2.9
Japan	3.3	1.6	1.3	0.9	1.8	1.1	1.0	1.2	0.7	1.3	0.8	0.8	0.6	-0.2	0.0
Canada	5.6	1.5	1.8	1.7	1.7	1.8	1.7	0.6	0.0	0.2	0.2	-0.2	0.0	0.2	0.2
Germany	3.5	4.0	4.2	4.2	4.2	3.7	3.7	3.3	3.0	3.2	3.1	3.0	3.0	3.0	3.0
United Kingdom	5.9	3.7	1.6	1.3	1.6	1.6	1.9	2.4	2.6	2.3	2.6	2.6	2.6	2.3	2.4
France	3.2	2.4	2.0	2.0	2.2	2.1	2.1	1.7	1.7	1.5	1.7	1.7	1.8	1.7	1.7
Italy	6.4	5.1	4.4	4.5	4.5	4.4	4.3	([1])	([1])	4.3	4.1	4.0	3.7	3.8	([1])

[1] Not available.

Source: *Consumer Price Indexes, Nine Countries*, U.S. Department of Labor, October 1994.

Unemployment rates, (civilian labor force basis)[1] by selected countries and by specified periods, Jan. 1991-August 1994

				1993			1994						
Country	1991	1992	1993	III	IV	Dec.	I	II	Apr.	May	Jun.	Jul.	Aug.
United States	6.7	7.4	6.8	6.7	6.5	6.4	6.6	6.2	6.4	6.0	6.0	6.1	6.1
Japan	2.1	2.2	2.5	2.6	2.8	2.9	2.8	2.8	2.8	2.8	2.9	3.0	3.1
Canada	10.3	11.3	11.2	11.4	11.1	11.2	11.0	10.7	11.0	10.7	10.3	10.2	10.3
Germany[3]	4.4	4.7	5.9	6.1	6.4	6.5	6.4	6.6	6.6	6.6	6.6	6.5	6.5
United Kingdom	8.9	10.0	10.4	10.5	10.1	10.0	10.0	9.6	9.7	9.6	9.6	9.5	9.4
France	9.8	10.2	11.3	11.3	11.7	11.7	12.3	12.4	12.4	12.4	12.4	12.3	([2])
Italy	6.9	7.3	9.4	10.6	([2])	([4])	11.2	11.9	([4])	([4])	([4])	([4])	([4])

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.
[2] Not available.
[3] Formerly West Germany.
[4] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, October 1994.

Money-market interest rates,[1] by selected countries and by specified periods, Jan. 1991-September 1994

(Percentage, annual rates)

Country	1991	1992	1993	1993 IV	1993 Dec.	1994 I	1994 II	1994 III	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.
United States	5.9	3.7	3.2	3.3	3.4	3.4	4.3		3.7	4.0	4.5	4.5	4.7	4.8	5.0
Japan	7.3	4.4	2.9	2.2	2.0	2.2	2.1	([2])	2.2	2.2	2.1	2.1	2.1	2.2	([2])
Canada	9.0	6.7	5.1	4.3	4.0	4.0	5.7	([2])	4.4	4.4	6.3	6.5	6.2	5.7	([2])
Germany	9.1	9.4	7.1	6.2	5.9	5.7	5.1	([2])	5.7	5.4	5.0	4.9	4.8	4.8	([2])
United Kingdom	11.5	9.5	5.8	5.4	5.2	5.2	5.1	([2])	5.1	5.1	5.1	5.1	5.1	5.4	([2])
France	9.5	10.1	8.3	6.5	6.3	6.1	5.5	([2])	6.1	5.8	5.5	5.4	5.5	5.4	([2])
Italy	12.0	13.9	10.0	8.7	8.5	8.3	7.9	([2])	8.3	8.0	7.7	8.0	8.3	8.8	([2])

[1] 90-day certificate of deposit.
[2] Not available.

Source: *Federal Reserve Statistical Release*, October 3, 1994 *Federal Reserve Bulletin*, October 1994.

Effective exchange rates of the U.S. dollar, by specified periods, Jan. 1991-September 1994

(Percentage change from previous period)

Item	1991	1992	1993	1993 IV	1994 I	1994 II	1994 III	May	Jun.	Jul.	Aug.	Sept.
Unadjusted:												
Index[1]	98.5	97.0	100.1	101.2	101.6	100.0	96.5	100.0	99.1	96.7	97.1	95.7
Percentage change	-1.5	-1.5	3.1	1.6	.4	-1.6	-3.5	-.9	-.9	-2.4	.4	-1.4
Adjusted: Index[1]	101.1	100.9	104.2	104.1	104.7	103.5	99.9	103.2	102.5	100.0	100.7	99.1
Percentage change	1.0	-.1	3.3	.4	.6	-1.2	-3.6	-.9	-.6	-2.5	.7	-1.6

[1] 1990 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 18 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, October 1994.

Trade balances, by selected countries and by specified periods, Jan. 1991-August 1994
(In billions of U.S. dollars, Exports less Imports (f.o.b - c.i.f), at an annual rate)

Country	1991	1992	1993	1993 IV	1994 I	II	Apr.	May	Jun.	Jul.	Aug.
United States[1]	-65.4	-84.5	-115.7	-111.7	-129.1	-152.4	-144.5	-154.6	-156.3	178.1	-155.4
Japan	77.6	106.4	120.3	41.7	42.4	([2])	([2])	([2])	([2])	([2])	([2])
Canada[3]	9.0	12.1	13.3	3.8	4.2	([2])	([2])	([2])	([2])	([2])	([2])
Germany	13.2	21.0	35.8	17.9	13.1	([2])	([2])	([2])	([2])	([2])	([2])
United Kingdom	-24.8	-30.8	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])
France[3]	-5.2	5.8	15.8	6.4	3.6	([2])	([2])	([2])	([2])	([2])	([2])
Italy	-13.2	-6.6	20.6	7.5	([2])	([2])	([2])	([2])	([2])	([2])	([2])

[1] Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f.value.
[2] Not available.
[3] Imports are f.o.b.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, October 19, 1994; *Main Economic Indicators;* Organization for Economic Cooperation and Development, July 1994.

U.S. trade balance,[1] by major commodity categories and by specified periods, Jan. 1991-July 1994
(In billions of dollars)

Country	1991	1992	1993	1993 IV	1994 I	II	III	Apr.	May	Jun.	Jul.
Commodity categories:											
Agriculture	16.2	18.6	17.8	5.6	4.4	3.6	1.2	1.3	1.1	1.2	1.3
Petroleum and selected product— (unadjusted)	-42.3	-43.9	-45.7	-10.7	-9.6	-11.9	-3.6	-3.8	-4.5	-4.8	-4.8
Manufactured goods	-67.2	-86.7	-115.3	-32.8	-29.1	-33.8	-9.7	-10.8	-13.3	-14.3	-15.3
Selected countries:											
Western Europe	16.1	6.2	-1.4	-1.2	-.1	-2.3	-.1	-1.4	-1.8	-2.3	-1.6
Canada[2]	-6.0	-7.9	-10.2	-2.8	-2.7	-3.0	-.9	-.8	-1.3	-1.4	-.9
Japan	-43.4	-49.4	-59.9	-17.1	-15.0	-15.4	-5.5	-4.4	-5.5	-5.7	-5.8
OPEC (unadjusted)	-13.8	-11.2	-11.6	-1.6	-1.6	-3.7	-1.1	-1.0	-1.6	-1.7	-1.8
Unit value of U.S.imports of petroleum and selected products (unadjusted)	$17.42	$16.80	$15.13	$13.52	$11.80	$13.98	$12.77	$14.04	$15.14	$16.06	$16.01

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.
[2] Beginning with 1989, figures include previously undocumented exports to Canada.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, October 19, 1994.

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